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Failed and Successful Capitalisms: Lessons From the  
Twentieth Century.

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There are as many varieties of Capitalism as Heinz has of pickles. In particular I want to distinguish between largely laissez faire capitalisms and big government - interventionist capitalisms and among the big government interventionist capitalism I want to differentiate between those that are mainly populist and equalitarian and those that are repressive and defenders of a political and social heirachy. I want you to recall that the Fascist and Nazi regimes were capitalist as were the colonial regimes.

As the twentieth century draws to a close we need to extract lessons from this century in which progress was inexorably intertwined with horrors and disasters. An exercise which aims at extracting lessons from history could deal with big questions such as the meaning of success and of failure, of progress and decline and whether a common morality exists and, if it exists, its significance. I am not going to try to extract lessons about big philosophical and moral questions.

I wish to limit or concentrate our vision on a narrower set of questions all dealing with the success or failure of economic structures. This grim century has seen the collapse of the Soviet model of Socialism which was an economic order based upon an extreme rejection of the use of markets to determine economic outcomes. But earlier in this century in the winter of 1932-33 the leading economies based upon the use of markets were abject failures. One looking at the world from the perspective of the 1930's the

conclusion might well have been that market economies "break down" and therefor there is a need to abandon the market way of organizing the economic dimensions of society.

However the 1930's, as well as the decade after the end of World War II, saw a mighty reform of change in the capitalist economies, and this new model capitalism was much more successful than the model that collapsed in 1932-33. It seems evident that this grim century has much to teach us about capitalism. We need to try to extract from history some ideas about what makes a capitalist economy a successful economy.

WE should also try to extract from history some of lessons how about how the success of an economic system is linked to social and political developments. In order to do this I will emphasize developments in the United States with some asides upon developments in what are now the rich market economies. I will not deal with the abject economic failures of the African nations, both North and South of the Sahara, the chronic stop go progress of the Latin American economies, nor with the recent success of the Asian Tigers.

For the remainder of this century and the first part of the next the countries of Central and Eastern Europe will be occupied with creating capitalism. The rich Capitalist countries of Western Europe, the United States, Japan and some of the former British Dominions, will be occupied with trying to capture once again the glories of the period during which capitalism was a great success. This will

involve reforming the current structure and in an effort to make Capitalism work once again as well as it did in the aftermath of The great depression. Now that the whole world is setting out to be Capitalist, the problems of the era we are entering will be to create capitalism, reform capitalism and make capitalism succeed.

I will focus on the United States with perhaps digressions to Europe.

Like Gaul for Caesar the performance of the United States United State's economy during the 20th century is divided in three parts. The first part ran from the beginning of the century to the collapse of Capitalism in the winter of 1932-33. The second part runs from 1933 until about 1968 and the third part runs from 1968 until now.

Capitalism was a abject failure in the winter of 1933, not only in the United States but also in the then developed economies. Although there were runs of good times during the first thirty three years of the century - the boom after the first world war in the United States being one of these runs - a serious depression took place in 1907 and around 1922. That of 1907 led first to the setting up of the National Monetary Commission and this in turn led to the establishment of the Federal Reserve System. The great contraction, which ushered in the crisis of 1933 that marked the virtual collapse of capitalism, took place between October 1929, when the stock market crashed, and March of 1933 when the banking system was shut down. Even aside from

the great contraction the overall performance of the economy during this third of the century was mediocre: what prosperity there was poorly distributed and a succession of depressions racked the land. However the failure over the 1929-1933 period was well nigh unique in that all sectors of the economy suffered.

In many ways the literature about the period catches the flavor of the collapse better than a mere recital of the statistics. We all know *The Grapes of Wrath*, in the film version if not in the novel. However the *Oakies* of the 1930's collapse were but another farm crisis: *A Grapes of Wrath* could have been written of the era that led to *Coxey's Army*. The landmark William Jennings Bryan "Cross of Gold" speech of 1896 reflected a previous crisis in agriculture.

To my mind Arthur Miller's play "The Price" captures the special property of the Great Contraction of 1929-33 in that it impacted the well to do along with workers and farmers who were the usual payers of the price. The singular impact of the great contraction was not in the fall of output prices or in the unemployment rate: it was upon the price level of assets. One representation of what happened to the price level of assets is the Dow Jones index of stock prices. By 1933 The Dow Jones was some 15% of its peak value. This fall in equity values was associated with a rash of bank failures, a massive decline in real estate values, and the bankruptcy of railroads and utilities so that payoff on bonds was at some fraction of their face

value. This developments meant that an unprecedented impoverishment of the well to do took place. For them, who had been the main beneficiaries of the good times of the first part of the century, capitalism became an abject failure.

This first third which ended in the spring of 1933 was followed by some thirty five years which led to the United States being a roaring success, albeit that the political and economic hubris that this success bred led to the United States sashaying into intervening and defeat in Viet Nam. The last third of the century, starting from 1968 is still incomplete, but the indications for the performance of the economy is that nothing as severe as the debacle of 1929-33 is likely to happen but the performance is not up to the standard set in the middle third of the century.

There is a political note that we might as well attach to this broad brush description of the century. The first third from 1900 until the election of 1932 had eight presidential administrations of which 6 were Republican and only two, the Wilson years were Democratic. The second third running from 1932 until 1968 had nine administrations seven of which were Democratic and only the two Eisenhower administrations were Republican. The third part of the century will have eight administrations seven of which we already can split between the Democrats and the Republicans: the split to date is five Republican terms and two Democratic administrations.

We do not want to make too much of this division, but the Democrats are associated with the transformation of failure into success and the Republicans are associated with outright debacles and deteriorating behavior.

Through much of the 20th century there is a difference between the two parties views of the economy. Republicans tend to reflect a faith in letting the markets determine outcomes whereas the Democrats reflect a wariness towards accepting the claims made for the market way of organizing economies. There is a difference in their views of how well the market economy functions if left to its own measures.

#### Full Employment in a Free Economy

This was the title given by Lord Beveridge the book which contained his prescription for Economic Policy after World War: His definition of full employment was not in stated as a measured rate of unemployment but rather as a market condition: The number of Job Vacancies at the ruling money wage had to exceed the number of unemployed: aim of policy is to keep labor markets "tight".

The problem with the conception of full employment in the sense of Beveridge is that such tight labor markets would well put upward pressures on money wage rates and thus on the money prices of production. The question of full employment becomes to the way of thinking of later economists to the nature of the Phillips curve.

Employment policy during the New Deal era in the United States reflected two "moral principles": 1. no one will starve in the United States and in the normal course of events 2. income from work sufficient to achieve the no starving state will be available to all.

WHAT IN TRUTH CAN ECONOMISTS SAY ABOUT THE MARKET ECONOMY ?

ENDOGENOUS INSTABILITY

THE ROLE OF INVESTMENTS AS THE DETERMINANT OF PROFITS IN THE SIMPLEST CASE .

GOVERNMENT DEFICITS AND PROFITS .

IN A BIG GOVERNMENT CAPITALISM THE ABILITY OF THE GOVERNMENT TO RUN SIZEABLE DEFICITS CAN PREVENT THE COLLAPSE OF PROFITS SUCH AS HAPPENED OVER THE GREAT CONTRACTION .

GOVERNMENT DEBT AS A BURDEN ON FISCAL MEASURES

NEED FOR THE GOVERNMENT'S SPENDING TO ABET ECONOMIC EXPANSION ,

THE EXHAUSTION OF INVESTMENT OPPORTUNITIES .



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CONSUMPTION VS. INVESTMENT IN THE GOVERNMENT SPENDING PROGRAMS.